SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

March 17, 1983
3:00 p.m.
Roosevelt Room

Attendees:

Treasury
Secretary Regan
Marc Leland

State
Richard McCormack
Dennis Lamb

Defense
Richard Perle
Stephen Bryen

Agriculture
Richard Lyng
Allan Tracy

Commerce
Secretary Baldrige
Lionel Olmer

Justice
Michael Shepherd

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CIA
Henry Rowen
[redacted]

USTR
John E. Ray
William Triplett

OMB
Alton Keel

CEA
Martin Feldstein

OPD
Edwin L. Harper
Roger Porter

NSC
Norman Bailey, Executive Secretary
Roger Robinson
William Martin

Korean Cotton

The Chairman asked Deputy Secretary Lyng to introduce the subject of extending blended credit to the Koreans for purchases of U.S. cotton. The direct costs to the USG for the $10 million interest-free credit for 30 months would be $1.7-1.9 million, but the direct benefits would be considerably more. In addition, the United States would be able to maintain its traditional share of the market (90-95 percent) which is being challenged by several developing country producers.

Opponents of the sale argued that this would be a contradictory and untimely gesture given our free market and trade approach. In addition, it would help block out sales by other developing countries who we have told to depend on trade, not aid for economic growth. After discussion, the SIG-IEP, by a vote of eight to two, decided the cotton credit should not be granted.

Polish Debt

Marc Leland reviewed the status of Polish debt. Private banks and Poland have agreed to reschedule the 1982 debt. While banks are receiving only a small portion of what is due them, some European countries are beginning to believe that partial payment is better than receiving nothing. We are likely to run into considerable pressure from the Europeans to seek an agreement to reschedule 1982 Polish debt.

However, Polish funds are limited. It is not clear that governments would receive significant amounts. On the other hand, it would get us nowhere to declare Poland in default. This standstill situation is likely to continue for some time.

Dick McCormack reported that the political situation in Poland remains grim and that Secretary Shultz is willing to try to negotiate quietly with the Poles to see if something can be worked out. The Chairman concluded by saying that Treasury, State and the CIA should form a working group to study this problem further. He also welcomed any attempts by Secretary Shultz to see if he could make progress with the Poles.

Exchange Stabilization Fund

Secretary Regan then asked the group's guidance on the use of the Exchange Stabilization Fund (ESF). The ESF was originally created to help moderate fluctuations in the currency exchange market after the United States went off the gold standard. It was created to maintain stability in the international markets and the Secretary has recently used it to provide bridge loans to Mexico and Brazil with assurances of adequate collateral and payback schemes. More recently, we have loan requests in from Chile and Peru for $400 million and $170 million, respectively.

This has made Congress somewhat nervous, partly because they have no control over the $12 billion fund.

The Secretary of the Treasury has no other fund to assist countries who, in fact, may have great needs (i.e., nations who need a bridge loan to keep them afloat until IMF funds can be supplied).

On balance, Secretary Regan was wary of using the ESF for these purposes, but he was interested in hearing the views of the SIG-IEP.

Most comments were supportive of using the ESF to provide short-term financing for needy countries, although they recognized the Secretary's concern as to where you draw the line. Some noted that you need to see the light at the end of the tunnel before providing a loan. Roger Robinson suggested that the protection of Treasury's prerogatives and flexibility in administering the ESF might be best served by staying within existing precedents for use of the ESF. He stated that he understood this to mean that ESF loans should be fully collateralized and that a source of payback be identified within the prescribed six-month period.

Marc Leland noted that this issue would be more thoroughly addressed in the NSSD on international debt which will be completed by April 15. The analysis and conclusions will be drawn from the four working groups currently sutdying different parts of the issue.

Export Administration Act

The NSC will review the three remaining issues regarding the Administration's legislation stance for the Export Administration Act renewal. These include the subjects of contract sanctity and import controls.